

## Advisory Services

### ***New CPA Code: A Preview of the Changes***

*This is part of a series of guidance prepared to explain the impact of the new CPA Code of Professional Conduct (“CPA Code”) that came into effect for CPA Ontario on February 26, 2016. The CPA Code will be presented to members for ratification at the next Annual General Meeting.*

#### Introduction

CPA Ontario has recently approved the new Code of Professional Conduct that was developed for Chartered Professional Accountants across Canada. This Code represents the ethical standards and fundamental principles that members must bear in mind in their personal and professional lives, irrespective of the various roles that they may take on during their lifetimes. A new name, the *CPA Code of Professional Conduct* (the “CPA Code”), was selected to reflect unification of the requirements of the three legacy bodies.

This document explains:

- How the new CPA Code was developed;
- What the major changes are relative to the *Rules of Professional Conduct* (“Rules”) and *Council Interpretations* (CIs) that were replaced by the CPA Code;
- How the CPA Code is structured; and
- What other specific changes in the CPA Code are relative to the Rules and CIs.

This document only highlights certain matters and may not be all-inclusive. Each member, firm, student, and applicant is responsible for reading the CPA Code, understanding their obligations, and complying with the CPA Code.

#### Development of the CPA Code

The CPA Code was drafted by a committee comprised of staff representatives from various provincial bodies, as well as members in industry and public practice and across legacy bodies. The committee was directed to start with the harmonized Rules and CIs of the legacy CA provincial bodies, then to compare these requirements to those of the legacy CMA and CGAs bodies as well as the International Ethics Standards Board or “IESBA” (the ethical standards setting body of the International Federation of Accountants which Canada is a member of), and select the most stringent requirements. Note that all three legacy bodies had similar requirements, but the language and specificity of requirements varied considerably. The scope of the review was otherwise limited; it excluded major rule changes as well as changes to Rule 204 *Independence*, which are the responsibility of the Independence Task Force. The committee was subject to oversight by the national Public Trust Committee. Provincial bodies provided input before the unified version was finalized.

Although the objective is to have a code that is harmonized across the country, the CPA Code is adopted at a provincial level, and provincial bodies have customized the Code for their specific circumstances. Changes should be minimal, such as in respect of legislative differences that impact public accounting firms.

The new CPA Code for CPA Ontario was approved by Council on February 26, 2016 and is now in effect. The CPA Code will be presented to members for ratification at the next Annual General Meeting.

Similar to other Bylaws and Regulations, the CPA Code is part of CPA Ontario's *Member's Handbook*. The *Member's Handbook* is available at: [cpaontario.ca/Resources/Membershandbook](http://cpaontario.ca/Resources/Membershandbook). The CPA Code can be accessed directly at [cpaontario.ca/Resources/CPACode](http://cpaontario.ca/Resources/CPACode).

## Major Changes from Rules and CIs

Major changes from CPA Ontario's Rules and CIs (which were replaced by this CPA Code) are summarized below, with more details for each section provided in the next section.

- Other than a new name, one of the major changes is the organization of materials. Interpretative guidance is now provided with the Rule, rather than in a separate document (formerly the CIs). Also, a general definitions section has been provided for convenience.
- The term "members and firms" is used throughout the CPA Code instead of "members, firms, students and applicants". However, students and applicants are still subject to the CPA Code, as specified in the Bylaw 6.3. This change in terminology allows for some flexibility in how the discipline process is applied. Note that Rule 204 *Independence* still refers to students, but this is primarily by virtue of the relationships they may have that impact a member or firm's ability to accept the engagement.
- The content has not undergone major revisions. There is more emphasis, however, on the provision of professional services, rather than public accounting. This change is noticeable in Rule 210 *Conflicts of Interest*, although this may only be perception, as Rule 202 *Objectivity* would likely have applied.
- Guidance was added to clarify some common areas of confusion, such as whether to communicate possible fraud to successors (see Rule 302 *Communication with predecessor*).
- Members who provide professional and public accounting services will notice more stringent requirements in a few areas; these changes are highlighted below.
- A few updates have been made to reflect the current environment, such as in Rule 206 *Compliance with professional standards* and in Rule 404 *Access to members practising public accounting*.

## Structure of the CPA Code

Preamble	The Preamble introduces the CPA Code. It covers who the Code applies to, and what the fundamental principles governing conduct are (professional behavior; integrity and due care; objectivity; professional competence; and confidentiality). In Ontario, firms are within the authority of the CPA Code; all persons in a firm (including non-members) are expected to comply with the CPA Code.
Definitions	General-use definitions have been compiled in one section. Definitions that have specific meaning within the context of a Rule are included with that Rule; for example, Rule 204 <i>Independence</i> includes a number of definitions that are specific to that Rule.
Rules and Guidance	Rules (the "shalls" and "shall nots") are italicized. Guidance is now included with the Rule, instead of in a separate document (such as the CIs were), and it is not italicized.

Rules are organized in the following five sections:

- 100 Professional Governance – These Rules apply to all members irrespective of activities.
- 200 Public Protection – Some Rules in this Section apply to all members at all times, some only apply to members who provide professional services (including public accounting), and some only to members in public accounting practices.
- 300 Professional Colleagues - Rules in this Section apply to members providing professional services and to members in public accounting practices.

- 400 Public Accounting Practices – These Rules only apply to members providing public accounting services.
- 500 Firms – There are additional requirements for public accounting firms.

## Details of Changes by Section

For simplicity, this guidance refers primarily to “members” instead of the CPA Code phrase “members and firms,” because members will be reviewing this guidance on behalf of themselves as well as firms.

### All sections

- The shift in terminology from “members, firms, students and applicants” to “members and firms” applies to all sections.

### Preamble

- The “Foreword” was renamed the “Preamble” to reinforce that it is an integral part of the CPA Code.
- Examples have been broadened to professional services from public accounting services in a number of cases to reflect more current membership demographics.
- Since the Preamble should only address matters relevant to all members, discussion of “fiduciary duty” (which only applies in some circumstances) was moved to Rule 202 *Integrity and due care and Objectivity*.
- Some sections were moved around, and cosmetic changes were made to modernize wording.

### Definitions

- General-use definitions were moved to this section from individual Rules. If a definition has a specific use within a Rule, it is provided at the beginning of that Rule (for example, Rule 204 *Independence*)
- Definitions have been included for terms defined in CPA Ontario’s Bylaws and Regulations, such as: “cross-referenced”; “firm”; “member”; “professional colleague”; “provincial CPA body”; “public accounting”; and “related business or practice.”

Members are reminded that the definition of “public accounting” includes both Bylaw definition (1.1.26) “practice of public accounting”, which refers to engagements where the lead engagement partner is required to have a public accounting licence in accordance with the *Public Accounting Act, 2004*, and Bylaw definition (1.1.31) “providing accounting services to the public”, which is a broad term that captures: providing accounting services in an expert capacity; performing any engagement addressed in the *CPA Canada Handbook- Assurance* for which a public accounting licence is not required; the provision of taxation advice and counselling in an expert capacity; and compilation engagements. Any member providing these services needs to register a firm with CPA Ontario. Some provincial bodies now refer to some of the services as “other regulated services”.

- There are some new or modified definitions:
  - The term “appropriate financial reporting framework” replaces references to “generally accepted accounting principles” (or GAAP).
  - A definition as created for “employer.” This term is broad, and includes an individual or organization that is provided professional services on a *pro bono* basis.
  - Clarification has been added that “professional services” include volunteer services.
  - The definition of “generally accepted standards of practice of the profession” more clearly states that other standards applying to a particular area of professional service are included.

- The definition of “consent” is more stringent. It refers to “fully informed and voluntary consent”, as well as discussing both written and oral consent. This modification allowed housekeeping changes to be made throughout the CPA Code to reduce the number of terms used to describe “consent”.

## Rules and Related Guidance

In the following section:

- Rules have not been renumbered from the legacy CA structure. Some Rules have been reserved for future use and are not provided below (Rule 204.6; Rules 204.11 to 204.19; Rule 301; and Rule 407)
- A description has been provided after the Rule name in the following guidance where it is not self-evident who the Rule applies to.

### 100 GOVERNANCE [All members, at all times]

#### 101 *Compliance with governing legislation, bylaws, the CPA Code*

- Rule 101.1 was modified to clarify that the requirement to comply applies regardless of jurisdiction of residence of member or operation of the firm.
- Wording was added to Rule 101.1(c) and (d) to clarify that when someone is a member in another professional body (in Canada or elsewhere) or another type of professional organization (such as business valuers), and a conflict arises, then the most stringent requirements would apply to their particular circumstances.
- Requirements to self-report matters to CPA Ontario are now clearly carved out of Rule 211 and covered in new Rule 101.2 (as well as existing Rule 102). Rule 101.2 also requires members who identify that they have breached the CPA Code to take whatever action might be appropriate or required by law, as soon as possible, to satisfactorily address the consequences of any such breach.

#### 102 *Matters to be reported to CPA Ontario*

- Some housekeeping changes were made.

#### 103 *False or misleading applications*

- Parts (a) and (b) of this Rule were consolidated (as a housekeeping change).

#### 104 *Requirement to co-operate*

- Terminology in Guidance paragraph 1 was changed to current wording used by CPA Ontario.

#### 105 *Hindrance, inappropriate influence and intimidation*

- New guidance clarifies that members may provide assistance to other members appearing before CPA Ontario.

### 200 PUBLIC PROTECTION

#### 201 *Maintenance of the good reputation of the profession* [ALL; AT ALL TIMES]

- Rule 201.4 “Advocacy services” and the related guidance were moved to Rule 202.
- Cosmetic wording changes were made within the Rule.
- Modifications were made to clarify that guidance regarding auditor resignations may also apply when an auditor’s appointment is terminated. Also, redundant wording in this section was deleted.

#### 202 *Integrity and due care and Objectivity* [202.1: PROFESSIONAL SERVICES; 202.2: ALL]

- Wording in Rule 202.2 was updated to more closely align with the Objectivity principle.
- The concept of fiduciary duty that applies in respect of the provision of certain services was moved from the Preamble to guidance to this section.

- Advocacy services relate primarily to objectivity and due care, so former Rule 201.4 was moved to Guidance to this Rule. Note that former Rule 201.4 focused on these services as a separate Rule, which raised the question whether there needed to be a list of requirements for every service that members could provide. This was considered to be unnecessary, and led to moving discussion that relates to specific services to Guidance in the CPA Code.
  - The focus of the Guidance has broadened from public accounting to professional services.
  
- 203 *Professional competence* [PROFESSIONAL SERVICES & FUNCTIONS WHERE THERE IS RELIANCE]
  - The reference in the Rule to “practices” was changed to “professional services”.
  
- 204 *Independence* [PUBLIC ACCOUNTING FIRMS]
  - Modifications to this Rule were not in the scope of this committee. The Independence Task Force did allow some changes, such as conforming the layout to the rest of the CPA Code.
  - Sections of the Guidance that repeated the Rule were deleted.
  - Additional housekeeping changes were allowed in the Canadian-specific sections of this Rule; for example, cosmetic changes in Rule 204.9 *Independence: Insolvency Engagements*, and the consolidation of requirements regarding audit appointments under both provincial and federal elections into one set of requirements in Rule 204.20 *Audits under elections legislation*.
  - A flowchart was added to provide an overview (after Guidance paragraph 50).
  - A placeholder for Rule 204.6 was added to incorporate the proposals outlined in the February 2015 Exposure Draft “Proposed Revisions to Independence Standards to address a breach of the standards and to address contingent fees” that are expected to be approved sometime in 2016.
  
- 205 *False or misleading documents and oral representations* [ALL]
  - Guidance was added as a reminder that this Rule covers academic dishonesty.
  
- 206 *Compliance with professional standards* [ALL MEMBERS]
  - Rule 206.1 consolidates the two Rules (206.1 and 206.2) that addressed members in an accounting practice into one.
  - Rule 206.3 was modified to clarify that members who are on audit committees or boards of directors are expected to carry out these responsibilities with the care and diligence of a competent member.
  - The concept of generally accepted accounting principles or “GAAP” was replaced by “appropriate financial reporting frameworks”.
  - The definition of “generally accepted standards of practice of the profession” was modified to clarify that these standards extend beyond standards developed in Canada.
  - Guidance was added to address the provision of professional services (in addition to public accounting).
  - Some housekeeping changes were made in the Guidance.
  
- 207 *Unauthorized benefits* [PROFESSIONAL SERVICES]
  - Guidance has been added as a reminder that the definition of “employer” includes the provision of professional services to an individual or organization on a voluntary basis.
  
- 208 *Confidentiality of information* [ALL]
  - Rule 208.3 previously specifically discussed subcontracting services. The Rule is now broader, and includes two new parts. New Rule 208.3(a) requires all members to take appropriate measures to maintain and protect confidential information of current and former clients and employers, and to ensure that access to such information is limited to those with legitimate purpose to access the information. New Rule 208.3(b) requires others with access to this information to agree in writing to protect confidentiality of such information and to only use it as required for the performance of appropriate professional services.

- 209 *Borrowing from clients* [PROFESSIONAL SERVICES]
- Rule 209.3 provides a definition of “client” that is specific to this Rule; this definition has been amended to refer to professional services (instead of “services”).
- 210 *Conflicts of interest* [PROFESSIONAL SERVICES]
- Rule 210 more broadly covers all professional services, not just public accounting. This is an example of a Rule where more stringent IESBA requirements were incorporated.
  - Guidance was modified and reordered to put more focus on professional services.
  - The terms “affected party” and “client” are specific to this Rule. Note also that the general definition of “consent” that applies to this Rule is now more stringent.
  - Rule 210.2 now more clearly outlines the three different conflict situations that can arise.
  - Wording in various sections of the Rule have been modified to more clearly outline obligations, and whether the member can undertake or continue with the service.
  - Rule 210.4 provides specific documentation requirements.
- 211 *Duty to report breach of CPA Code* [ALL]
- Requirements have been modified to cover a member or firm’s capacity to practise.
- 212 *Handling property of others* [ALL – various roles such as a trustee]
- New Rule 212.1(b) addresses the situation where a member or firm receives a retainer for the provision of future services but there is no written agreement; in this case the member or firm shall consider and handle the retainer as funds held in trust.
  - New guidance addresses matters that should be addressed in a written retainer agreement.
- 213 *Unlawful activity* [ALL]
- The Rule now covers activities that the member should have known to be unlawful.
- 214 *Fee quotations and billings* [PROFESSIONAL SERVICES]
- Billings are now specifically addressed. There is a requirement to bill on a fair and reasonable basis and provide appropriate explanations as are necessary to understand the billing.
  - Some guidance has been added on these matters.
- 215 *Contingent fees* [PUBLIC ACCOUNTING]
- New Rule 215.1 (c) prohibits contingent fees in respect of the preparation of an income tax return. This only applies to the initial return, and not necessarily to any work on appeals and assessments that are likely to undergo independent review, such as by the Canada Revenue Agency.
  - Some minor changes were made in the guidance to refer to matters specifically addressed by Rule 204, such as tax appeals and human resource services.
- 216 *Payment or receipt of commissions* [PUBLIC ACCOUNTING]
- Housekeeping changes were made to clean up the wording of Rule 216.1(a) and 216.1(b).
  - New Rule 216.1(c) requires a member or firm to meet disclosure and consent requirements in circumstances where the payment or receipt of a commission or other compensation is permitted.
  - New Rule 216.2 addresses how members not in public accounting may pay or receive commissions.
  - Additional guidance has been provided to explain the effect of Rule 216.
- 217 *Advertising, solicitation and endorsements* [ALL]
- Guidance was added to caution that cost sharing arrangements can be misleading in the context of representing the ownership of a firm.
  - There were other minor cosmetic changes.
- 218 *Retention of documentation and working papers* [PROFESSIONAL SERVICES]

- Rule 218 now requires a member to take reasonable steps to maintain information for which the member is responsible in respect of any professional service.
- The general guideline of 10 years has been removed from guidance as the timeframe for retention can vary, and in some cases documentation may need to be retained indefinitely. Guidance focuses more on considering minimum time frames and making risk assessments.
- New guidance refers to requirements to maintain and properly protect confidential information.

### 300 PROFESSIONAL COLLEAGUES

#### 302 *Communication with predecessor*

- The Rule now more broadly applies to the provision of professional services.
- Instead of focusing on suspected fraud or illegal activity as a factor in a resignation or termination of services, Rule 302.3 now requires the successor who is informed by the predecessor that they were unable to continue with or resigned from a public accounting engagement to obtain the necessary information to make an informed decision as to whether to accept the client.
- Guidance has been added to explain that the successor should carefully consider factors such as the nature and reasonableness of any information obtained from the client, or a refusal of permission from the client to contact the predecessor, when making the client acceptance decision.

#### 303 *Provision of client information*

- The Rule's title was changed from "Co-operation with successor accountant" to "Provision of client information", in order to describe that the scope has been broadened to address situations where access to client information is required in an ongoing engagement.
- Guidance clarifies the provision of the Rule to professional services outside of public accounting.

#### 304 *Joint engagements*

- Guidance has been added to explain the purpose of the Rule.

#### 305 *Communication of special engagements to incumbent*

- The Rule has been extended to those providing professional services.
- Guidance has been added to explain the purpose of the Rule.

#### 306 *Responsibilities owed to an incumbent*

- The Rule has been extended to those providing professional services.
- Guidance has been added to explain the purpose of the Rule.

### 400 PUBLIC ACCOUNTING PRACTICES

There are provincial differences in these Rules, because of legislative differences impacting public accounting firm structures.

#### 401 *Practice names*

- Guidance has been added to cover the implications of cost-sharing arrangements.
- More clarification has been provided to explain full-time equivalents.

#### 402 *Use of descriptive style*

- CPA Ontario updated this Rule in 2014 to refer to the descriptive style of "Chartered Professional Accountants".
- The portion of former Rule 407 that prohibited related businesses from using this descriptive style ("Chartered Professional Accountants") has been moved to this Rule.
- New guidance explains certain circumstances where the descriptive style is not required.

- 403 *Association with firms*
- Guidance has been added to explain that ownership of firms is restricted to members of CPA Ontario, as this is necessary to establish accountability by members and to protect the public.
- 404 *Access to members practising public accounting*
- Guidance has been added to explain what accessibility means for both full-time and part-time offices.
  - Guidance has also been added to explain that members are expected to respond to inquiries from the public within a reasonable period of time.
- 405 *Office by representation*
- Guidance has been added to explain that an association of firms may be implied by shared resources.
- 406 *Responsibility for a non-member*
- This Rule picks up the requirements relating to a member's responsibility for non-members that was in the former Rule 407 "Related business or practice, and member responsible for non-member in such business or practice."
- 407 [deleted] Related business or practice, and member responsible for non-member in such business or practice - The requirements of this Rule were moved to Rules 402 and 406, and this Rule has been deleted.
- 408 *Association with non-member in public practice*
- Guidance has been added to clarify that non-members do not need to meet certain member obligations, such as payment of dues.
- 409 Practice of public accounting in corporate form
- Guidance has been added to explain this Rule in the context of provincial legislation.

## 500 FIRMS

This section provides some additional requirements specific to firms.

- 501 *Policies and procedures for compliance with professional standards*
- The Rule now refers to the standards of a particular business or practice rather than specifically to the *CPA Canada – Handbook*.
- 502 *Policies and procedures for conduct of a practice*
- There were a few cosmetic changes to clean up wording.
- 503 *Association with firms*
- The Rule is now cross-referenced to Rule 403, instead of repeating the Rule 403 wording,

## Questions

CPA Ontario's Member/Practice Advisors can provide more specific information on how the CPA Code applies in specific circumstances. The Advisory Service is a free, confidential service that is available to all members regarding ethical matters, technical accounting and assurance matters, and practice management issues. Contact an Advisor at [memberadvisory@cpaontario.ca](mailto:memberadvisory@cpaontario.ca) or [practiceadvisory@cpaontario.ca](mailto:practiceadvisory@cpaontario.ca), or call 416.962.1841 ext. 4456 or 1 800.387.0735 ext. 4456.